



Joint Legislative Audit Committee
Office of the Auditor General



COMPLIANCE AUDIT REPORT
PUBLIC WORKS EMPLOYMENT ACT
TITLE II FUNDS

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-1010**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

1010

COMPLIANCE AUDIT REPORT
PUBLIC WORKS EMPLOYMENT ACT
TITLE II FUNDS

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
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November 21, 1980

1010

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the
Auditor General's compliance audit report of the Public Works
Employment Act - Title II Funds.

The auditors are Curt Davis, CPA; Romero Zamora; Diana Chang;
Taek Chong; Cindy Giddings-Velez; Susan Goldman; Kurt
Heinrichson; Bill Hogan; Barbara Jicha; Nancy Neis; Dennis
Reinholdtsen; Inderjit Rye; Mary Sherrill; Sylvia Skonberg; Kim
Smith; Mark Tebbutt; Joseph Thier; Joseph Tu; Alys Yeh; David
Yocum; and Theodore Tabarango.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

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SUMMARY

We have reviewed the funding and costs of contracts between the Employment Development Department (EDD) and various state agencies receiving Title II funds in fiscal year 1978-79. We conducted this review to determine whether the agencies have complied with the Interim Regulations issued by the United States Department of the Treasury, Office of Revenue Sharing. Established in 1976, Title II of the Public Works Employment Act provides funds to states and local governments to maintain levels of public employment and basic program services. In California, these funds are administered by the Employment Development Department which also receives Title II funds in support of certain projects.

As stated in the Auditor's Opinion, the agencies receiving these funds generally have complied with the provisions of the Public Works Employment Act. However, we found that the operating procedures of 20 agencies have resulted in \$694,955 of questionable Title II expenditures. In some cases, expenses were overcharged to Title II projects or incorrectly charged to these projects. Also because of agencies' contracting procedures, unallowable costs have been charged to Title II projects. Further, we noted that the EDD has not always required agencies to comply with contract terms.

Within this report, we have summarized our findings and recommendations for the 42 state agencies administering Title II projects.

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a compliance audit of the funding and costs of contracts between the Employment Development Department and various agencies of the State of California. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The Federal Government made funds available under Title II of the Public Works Employment Act of 1976 (PWEA) to state and local governments to establish an antirecession program and to stimulate economic recovery. The objective of this program was to assist in the nation's economic recovery by enabling states to maintain basic program services which might otherwise be eliminated because of the lack of available funds.

As a participant in this national effort, California received a quarterly allocation of Title II funds based upon its unemployment rate. Each quarterly allocation must be obligated or appropriated to state projects within six months after it is received. The unobligated portion is subject to recovery by the U. S. Treasury Department.

The Employment Development Department was chosen as the administrator of Title II funds for the State. The department's responsibility includes monitoring and reporting on the progress of approved projects and making recommendations for the efficient and proper use of Title II funds in accordance with state procedures and federal rules and regulations. In addition, the department awards Title II funds to agencies based upon available funding and statewide priorities. Excess funding over project costs is returned to the department and then redistributed. Some of the EDD's projects are also supported by Title II funds.

This review entailed separate compliance audits of 170 projects administered by 42 state agencies for the first revenue sharing cycle ending June 30, 1979. Appendix A to this report details the project expenses for each of the 42 agencies.


AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the funding and costs of contracts between the Employment Development Department and various departments in the State of California for the year ended June 30, 1979. Our examination was made in accordance with the financial and compliance standards of the Revenue Sharing and Antirecession Fiscal Assistance Acts and the regulations required by Section II.C.3. and III.C.3 of the Audit Guide and Standards for Revenue Sharing and Antirecession Fiscal Assistance Fund Recipients issued by the Office of Revenue Sharing, U. S. Department of Treasury.

Our examination of supporting documentation resulted in recommendations for disallowing certain claimed costs. Ultimately, the Employment Development Department and the federal Office of Revenue Sharing will determine which of these recommendations will be adopted.

Based upon the procedures and subject to the ultimate disposition of our recommendations, we noted no material instances of noncompliance with the regulations.



WESLEY E. VOSS
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AUDIT RESULTS

We have examined the operations of various state departments receiving Title II funds in fiscal year 1978-79, for compliance with the Interim Regulations issued by the U.S. Department of the Treasury, Office of Revenue Sharing (Federal Register, Volume 4, No. 198, Title 31, Chapter 1, Part 52).

On the following pages we have summarized the findings and recommendations of our review. First we present our results relating to the Employment Development Department. Then we include the findings related to the 41 remaining agencies, in descending order of the amount of Title II funds involved.

EMPLOYMENT DEVELOPMENT DEPARTMENT

During our examination of projects supported by Title II funds, we noted that the Employment Development Department is incorrectly transferring expenses incurred in excess of project budgets to other Title II projects. For example, under Contract No. 669, expenditures exceeded the budget by \$10,476. This excess amount was transferred as an expense of another Title II project--Contract No. 667. Federal Management Circular (FMC) 74-4 Section C.2.b prohibits the shifting of expenses between projects.

We further noted that the EDD overcharged \$70,255 to Title II projects. These overcharges resulted because the salaries of the director and his staff were included in the computation of indirect costs. Attachment A, Section G.1 of Federal Management Circular 74-4 prohibits including the salaries of the director and his staff in computations of indirect costs.

Our examination of contract funding and costs included a review of the EDD's policies and procedures governing contract administration. The EDD has not always required agencies to comply with contract terms.

In reviewing 170 projects administered by the department, we found that 25 projects or 14.7 percent of the projects adjusted their cost categories by more than 10 percent after receiving verbal approval from the department. Exhibit B 3.A, Paragraph 3 of the standard contract requires that the contract be amended.

Further, participation enrollment sheets were either incomplete or not remitted for 45 projects--26 percent of those reviewed. Also, six projects received advances equal to the total costs of the project rather than advances for the first two months of the program as required by Provision 13 of the standard contract. Finally, eight projects were billed in excess of allowable indirect costs rates.

To alleviate these problems, we recommend that the Employment Development Department comply with Federal Management Circular 74-4 Section C.2.b. Also, we recommend that the department return Title II funds amounting to \$70,255. Finally, the Employment Development Department should monitor Title II projects by requiring agencies to comply with contract terms.

DEPARTMENT OF INDUSTRIAL RELATIONS

During our examination, we found that these six contracts--78002253, 78004264, 78002374, 78002251, 78002252, and 78002373--overcharged \$472,632 to Title II projects. These overcharges, in all cases, resulted because the department billed indirect costs in excess of the amount allowed in each contract. Also, the department exceeded the indirect cost rate established by the Federal Department of Labor by approximately 12.26 percent. Additionally, the salaries of the director and his staff were included in the computation of this rate.

Federal Management Circular 74-4, Attachment A, provides that the actual indirect cost should not exceed the amount allowable under the predetermined rate; further, Attachment A, Section G.1 of this circular, prohibits using the salaries of the director and his staff to determine indirect costs.

The following schedule details the amounts overcharged to Title II projects for each contract:

Contract No. 78002253	\$ 4,094
Contract No. 78004264	4,186
Contract No. 78002374	50,514
Contract No. 78002251	40,665
Contract No. 78002252	21,396
Contract No. 78002373	<u>351,777</u>
Total overcharged	<u>\$472,632</u>

To correct these improper charges, we recommend that the Employment Development Department recover Title II funds amounting to \$472,632.

DEPARTMENT OF GENERAL SERVICES

Energy Guidelines of Lease
Agreement Project - Contract
No. 78000884

We found problems with the contracting procedures and the method of payment used by the Department of General Services (DGS) in completing the Energy Guidelines of Lease Agreement Project. The DGS entered into a subcontract with a consulting firm to complete this three-phase project, which is solely supported from Title II funds. The objective of this project is to explore the potential savings from energy conservation techniques and to develop and evaluate alternative strategies for financing such techniques. The project was to be completed

in three separate phases. Payments to the consultant were to correspond to the successful completion of each phase. The DGS was to retain 25 percent of the subcontracted amount as security fees.

The contracting procedures and the method of payment used by the DGS have resulted in unallowable charges amounting to \$39,500. Specifically, the department's subcontract with the consultant remains open even though approximately 15 months have elapsed since the end of the project. This subcontract has no expiration date as required by Section 1212.2 of the State Administrative Manual. Additionally, the consulting firm has not successfully completed the third phase of the contract.

The method of payment has also contributed to the unallowable charges. The DGS received an advance payment for the project totaling \$95,900 or 100 percent of the contract funding. Yet Provision 13 of the terms of the contract only allows for an advance equal to an agency's estimated accrued expenditures for the first two months of the project. Subsequent payments are to be made each month to reimburse further costs.

California Administrative Code
Revision Project - Contract
No. 78002568

Our examination of this project disclosed that contract payroll expenditures were not always charged to the appropriate funding source. Salaries amounting to \$513 have been incorrectly charged against the Title II program--California Administrative Code Revision Project. These costs were incurred in support of a general fund activity.

We recommend that the Employment Development Department recover unallowable Title II funds amounting to \$40,013.

DEPARTMENT OF REHABILITATION

During our examination of Contract No. 78005053, we found that we could not verify reported costs using the Department of Rehabilitation's central accounting records because the department did not establish account codes within the central accounting system to separately identify contract expenditures. To isolate expenditures to the contract, we would have to totally reconstruct the department's records. This reconstruction is beyond the scope of this audit.

The failure to establish adequate account codes for each contract is not in compliance with the Standards for Grantee Financial Management Systems as set forth in Attachment G of Federal Management Circular 74-7. Section 2 of this circular notes that

Grantee financial management systems shall provide for:

- a. Accurate, current and complete disclosure of the financial results of each grant program in accordance with federal reporting requirements.... (Emphasis added)
- b. Records which identify adequately the source and application of funds....
- c. Effective control over and accountability for all funds, property and other assets....

We recommend that the Department of Rehabilitation comply with these standards by establishing adequate account codes in the central state accounting records for separately identifying the state and federal charges for each grant.

DEPARTMENT OF PARKS AND RECREATION

During our examination, we found that four contracts overcharged \$35,532 to Title II projects. Under Contract No. 78002101, the overcharges amounted to \$28,725. These overcharges resulted because operating expenditures of \$25,000 incurred in support of a non-Title II contract were incorrectly charged against a Title II contract. Also, these incorrect charges had a corresponding overhead charge of \$3,725. Further, under Contract No. 78002141, overcharges amounting to \$3,981 resulted from mathematical errors in computing subcontract expenditures.

For Contract No. 78003729, the overcharges of \$2,229 were the result of two errors. A \$2,151 overcharge resulted from the use of an unallowable indirect cost rate, and an unauthorized travel expenditure of \$78 was incorrectly charged to the Title II program. Finally, an overcharge of \$597 for Contract No. 78002142 was caused by an error in calculating staff benefits amounting to \$505 and by corresponding overhead charges amounting to \$88.

To correct these errors, we recommend that the Employment Development Department recover Title II funds amounting to \$35,532.

DEPARTMENT OF FINANCE

During our examination, we found that Contract Nos. 78001145, 78002122, 78007288, and 78002138 overcharged \$18,814 to Title II projects. In each case, the overcharges resulted from (1) incorrectly charging hours worked on non-Title II programs and using incorrect hourly rates--\$12,254; (2) travel expenses incurred prior to contract approval and a duplicate charge for air fare--\$385; (3) a duplicate charge for rental equipment of \$138 during August and September; (4) mathematical errors amounting to \$300; and (5) overhead charges of \$1,896 and staff benefit charges of \$3,841 corresponding to the overcharges described above.

To correct these improper charges, we recommend that the Employment Development Department recover Title II funds amounting to \$18,814.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

During our examination of Contract No. 78004957, we found that contract expenditures were overstated. Specifically, operating expenses amounting to \$13,398 were overcharged against the Title II program--Minority Career Opportunity Project. Several factors contributed to these overcharges. Subcontract expenses amounting to \$10,236 for the period from July through September 1978 were not substantiated. Further, encumbrances were not reviewed and adjusted to reflect only valid expenditure commitments as required by Section 10524 of the State Administrative Manual. Expenditures of \$3,147 should not have been accrued, and a \$15 mathematical error was made.

To correct these errors, we recommend that the Employment Development Department recover Title II funds amounting to \$13,398.

DEPARTMENT OF DEVELOPMENTAL SERVICES

During our examination of Contract No. 78007366, we found that claimed expenditures exceeded actual expenditures by \$10,407. This difference resulted from an error of \$5,349 that occurred in posting the payroll and an error amounting to \$5,058 made in calculating the contract overhead rate.

To correct these charges that exceed actual expenditures, we recommend that the Employment Development Department recover Title II funds amounting to \$10,407.

STATE PERSONNEL BOARD

During our examination, we found that two contracts overcharged a total of \$8,544 to Title II projects. Under Contract No. 78003378, the overcharges amounted to \$8,344. These overcharges resulted from (1) a duplicate salary charge of \$3,260 during January and February, (2) an unsubstantiated payroll expense of \$2,904 for July 1979, (3) a mathematical error amounting to \$133, and (4) an overhead charge of \$2,047 that corresponds to the overcharges described above. Under Contract No. 78007576, the overcharge of \$200 was the result of two errors--a \$150 mathematical error and a \$50 overhead charge corresponding to that error.

To correct these errors, we recommend that the Employment Development Department recover Title II funds amounting to \$8,544.

STATE LANDS COMMISSION

During our examination, we found charges amounting to \$5,639 were incorrectly charged against the Title II projects. Under Contract No. 78002991, Watershed and Rehabilitation, sub-contracts were overcharged \$5,265, while under Contract No. 78003579, Removal of Obstructions on Tide and Submerged Lands, salary expenses were overstated by \$374.

To correct these errors, we recommend that the Employment Development Department recover Title II funds amounting to \$5,639.

DEPARTMENT OF ECONOMICS AND BUSINESS DEVELOPMENT

During our examination, we found that two contracts overcharged \$4,700 to Title II projects. Under Contract No. 77003769, the overcharges amounted to \$3,657. These overcharges resulted from duplicate indirect charges of \$3,229 during the period from March through December and travel expenses of \$428 incurred in support of a non-Title II project. Additionally, an overcharge of \$1,044 under Contract No. 77003762 was the result of two errors--a mathematical error of \$672 and unsubstantiated travel expenditures amounting to \$372.

To correct these errors, we recommend that the Employment Development Department recover Title II funds amounting to \$4,700.

STATE COASTAL CONSERVANCY

During our examination of Contract No. 79000126, we found that contract expenditures were overstated. Specifically, salaries, staff benefits, and operating expenses amounting to \$4,045 were overcharged against the Title II program--State Coastal Conservancy Program Support project. These overcharges resulted from (1) duplicate salary charges of \$2,054 during June and July 1979, (2) miscalculations in the benefit rate amounting to \$1,449, and (3) mathematical errors amounting to \$542.

To correct these errors, we recommend that the Employment Development Department recover Title II funds amounting to \$4,045 from the State Coastal Conservancy.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

During our examination of Contract No. 79001177, we found that contract payroll expenditures are not always charged to the appropriate funding sources. Specifically, salaries, staff benefits, and indirect costs amounting to \$3,980 have been incorrectly charged against a Title II program--The Housing Intern Project. These costs were incurred in support of the Highway 24 Grove Shaftner Replacement Project, which is not a Title II program. Provision 4 of the Title II contract between the EDD and the department prohibits the reimbursement of expenditures in excess of actual costs incurred.

To correct these improper charges, we recommend that the Employment Development Department recover Title II funds amounting to \$3,980.

DEPARTMENT OF AGING

During our examination, we found that a payroll posting error in the allotment expenditure ledger was subsequently billed against Contract No. 79000286. Specifically, salaries, staff benefits, and indirect costs have been incorrectly charged against the Department of Aging Title II. These costs, amounting to \$2,037 were in excess of the recorded expenditures. Provision 4 of the Title II contract between the EDD and the Department of Aging prohibits the reimbursement of expenditures in excess of actual costs incurred.

To correct this error, we recommend that the Employment Development Department recover Title II funds amounting to \$2,037.

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

During our examination, we found that for contract No. 78007220 contract payroll expenditures are not always properly charged to appropriate funding sources. Specifically, salaries and staff benefits amounting to \$1,995 have been incorrectly charged against a Title II program--the Jojoba Plant Project. These costs were incurred in support of the United Nations Development Program, which is not a Title II program. Provision 4 of the Title II contract between the EDD and the University prohibits the reimbursement of expenditures in excess of actual costs incurred.

To correct these incorrect charges, we recommend that the Employment Development Department recover Title II funds amounting to \$1,995.

OFFICE OF EMPLOYEE RELATIONS

In reviewing Contract No. 78008051, we found that \$1,388 of indirect costs were incorrectly included in operating expenses for the month of June 1979. These indirect costs are not allowable in accordance with Amendment No. 2, Exhibit B, Attachment #1B of the contract.

To correct these charges, we recommend that the Employment Development Department recover Title II funds amounting to \$1,388.

SECRETARY OF STATE

During our examination, we found that contract expenditures were overstated for Contract No. 78003957. Specifically, staff benefits and operating expenses amounting to \$593 were incorrectly charged against a Title II program--the Archives Processing Project. The overcharge occurred because year-end encumbrances were not reviewed and adjusted to reflect only valid and chargeable expenditure commitments as required by Section 10524 of the State Administrative Manual.

To correct this error, we recommend that the Employment Development Department recover Title II funds amounting to \$593.

DEPARTMENT OF FISH AND GAME

During our examination, we found that operating expenses were overstated for Contract No. 78000372 because a \$450 rental car refund was not credited to the Title II Grant.

To correct this incorrect charge, we recommend that the Employment Development Department recover Title II funds amounting to \$450.

DEPARTMENT OF VETERANS AFFAIRS

During our review of Contract No. 79000521, we found that the total amount of benefits claimed by the Department of Veterans Affairs exceeded the actual amount of benefits expended by \$272. This error resulted from miscalculations. Additionally, the total amount claimed for travel expenses exceeded the actual amount of expenses by \$110. This amount was mistakenly charged twice in the department's allotment expenditure ledger.

To correct these improper charges, we recommend that the Employment Development Department recover Title II funds amounting to \$382.

CALIFORNIA MILITARY DEPARTMENT

In reviewing Contract No. 78004877, we found that charges amounting to \$151 were incorrectly charged to a Title II project--Armory Deferred Maintenance. Specifically, the salary, staff benefits, and travel expenses of one employee were charged to the Energy Conservation Investment Program, which is not a Title II project. Provision 4 of the Title II contract between the EDD and the California Military Department prohibits the reimbursement of expenditures in excess of actual costs incurred.

To correct this error, we recommend that the Employment Development Department recover Title II funds amounting to \$151.

EMPLOYMENT DEVELOPMENT DEPARTMENT



• October 31, 1980

REFER TO:

77:73:gw

- Mr. Thomas W. Hayes
Auditor General
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Hayes:

The Employment Development Department, as administrator of the Public Works Program, has received and reviewed the Auditor General's Compliance Audit Report of Public Works Employment Act Title II funds. Because of the limited amount of time, a comprehensive response to the report cannot be made. However, the department will be taking into consideration the audit findings and will be making a determination as to the course of action to be taken.

If you have any questions, please contact Edward Trujillo at 323-3807.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joanne Jensen".

JOANNE JENSEN
Deputy Director
Administration Branch

cc: James Wyhlidko, #80

PUBLIC WORKS EMPLOYMENT ACT
PROJECT EXPENSES
FISCAL YEAR 1978-79

	<u>1978-79</u>
Employment Development Department	\$ 8,166,254
Office of Planning and Research	108,852
Department of Justice	736,851
Department of Industrial Relations	3,179,324
Secretary of State	95,696
Department of Finance	634,470
State Personnel Board	298,879
Department of General Services	39,822
Military Department	524,969
Department of Food and Agriculture	2,510,312
State Controller	787,572
Department of Consumer Affairs	421,490
State and Consumer Services Agency	23,795
Department of Veteran's Affairs	66,230
Department of Fish and Game	500,000
Department of Forestry	10,193,298
Department of Parks and Recreation	4,258,063
California Conservation Corps	497,842
California Coastal Commission	150,000
State Land Commission	1,175,252
Department of Housing and Community Development	1,036,414
Department of Health Services	2,831,015
Office of Statewide Health Planning	335,358
Department of Mental Health	81,537
Department of Developmental Services	4,083,287
Department of Alcohol and Drug Abuse	296,185
Department of Rehabilitation	447,715
Department of Aging	138,000
Department of Social Services	2,049,124
Department of Corrections	4,409,756
Department of the Youth Authority	3,529,816
Department of Education	1,296,816
Commission for Teacher Preparation and Licensing	102,214
University of California	3,397,027
Hastings College	52,055
California State University and Colleges	4,161,307
California Maritime Academy	140,440
California Community Colleges	105,286
Board of Equalization	156,400
Economic and Business Development	376,621
Office of Employee Relations	515,081
Total	<u>\$63,910,425</u>

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps